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NWC, page 12

A totalitarian system on the march often gives the impression of remorseless and overpowering strength. Its weaknesses become fully apparent only after its downfall, close quote. And George Kennan, in predicting the eventual downfall of the Soviet system has said recently, ~~philosophizing about~~ quote, that the communist system is deeply wrong-- wrong about human nature, wrong about how the world really works, wrong about the importance of moral forces, wrong in its whole outlook, close quote. But even Kennan agrees that these underlying problems may not force significant changes for a long time to come. And I certainly feel that too much optimism at this time could be pretty dangerous. But these problems will continue to plague the Soviets, as long as their economic structure maintains its present form.

GALE Johnson



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output had been maintained only through a staggering burden of overtime and holiday work. In outlining the cure for this situation, Gomulka essentially demanded more emphasis on consumer goods, less on heavy industry; a cessation of forced collectivization; more authority and initiative for plant managers and workers; and less interference by the Soviets and the political bureaucracy.

Certainly, if these changes take place, together with such developments as a softening of secret police control, the so-called "monolithic" character of the Soviet Bloc political and economic structure will undergo significant alteration. The basic nature of the satellite economic system will have changed and these changes may extend into the Soviet system itself. In fact, there are already some signs of decentralization in the Soviet Union, signs that appeared even before the death of Stalin. Where all this leads, whether the changes will come gradually or violently, whether these changes will in fact benefit U. S. security interests, no one really knows. As one of the foremost authorities on the Soviet system, Merle Fainsod, has said, quote,

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direct and less pervasive, and, second, that the imposition of the Soviet pattern of economic socialism came as more of a shock to the peoples of Eastern Europe than to the peoples of the Soviet Union.

Certainly many of the characteristics of the Soviet system are present in the economies of Poland and Hungary, and some of these same characteristics have played a significant role in the present crisis. In Gomulka's bill of complaints, for example, this seems particularly clear. Gomulka was very explicit in recognizing Poland's industrial growth under the communist regime. He clearly was not unhappy about Poland's rate of industrial progress. The difficulty, he said, was in the tragic human cost, the deep popular resentment of the system, and its tremendous inefficiency. Consumer goods, including food and housing, had lagged badly behind industrial production, and the peasants were chafing under pressure for collectivization. Party repression of the workers and plant managers had destroyed incentive and initiative, and in one of Poland's leading industries--coal mining--productivity had dropped sharply under communist control, and

Another point along these same lines was made by the Director of Central Intelligence in a speech just a few days ago when he said that one of the fatal errors of the Soviet leaders, if they really intend to return to Stalinism, was the mistaken belief that they could introduce mass education and still close off their people from access to the realities of the outside world. He went on to say that "In the industrial and educational progress which they have made, they have gone far towards turning serfs into thinking human beings." It is conceivable, of course, that these "thinking human beings" will press for standards of living more commensurate with those of the Western World, thereby reducing the tremendous emphasis on heavy industry and slowing the rate of future Soviet industrial progress.

POLAND AND HUNGARY--CASE STUDIES

I think that in Poland and Hungary we really have exaggerated models of the Soviet economic structure. I say exaggerated models in the sense, first, that communist party and police controls are weaker, less

we saw in Poland and Hungary, but might also be reflected in the cumulative effect of their day-to-day actions and decisions over time. The communist party leaders, for example, may well have created a Frankenstein in their highly trained elite of bureaucratic managers, engineers, scientists, and other professional personnel.

True, these people are identified with the regime and many are party members; yet these groups resent party, police, and military interference in the performance of their assigned tasks. In addition, the objectives and the motivating forces of these elite groups often differ in many respects from those of the Soviet rulers. Too much direct control and repression from the State may lead to inefficiency and lower productivity. On the other hand, a liberal policy giving them greater authority and responsibility would permit them to exercise more influence over the trend of future events, including the ground rules for day-to-day operation of the economy.

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(Cite the example of Soviet control over the impressions which their Hungarian debacle has made in the underdeveloped countries.) On the other hand, if the Soviets increase their incentives, this may lead to unrealistic expectations and greater pressure for more welfare benefits. Large masses of the people might take this as a sign of weakness and a signal for action against the State. Some of these elements apparently were present in the East German riots of June 1953 following announcements of more liberal attitudes toward the consumer. Nagy's efforts in this direction in Hungary some three years ago seemed to have a similar effect.

Third, aside from this underlying concern with popular discontent arising from the low standards of living, the Soviet regime must consider the fundamental attitude of various groups dominating key sectors of the Soviet economy. To a large extent, these groups are prisoners of the bureaucratic economic structure; yet, their reaction may not only lead to the kind of eruption

... has made us well aware of the material advantages of the Soviet system, but it is also true that there are certain weaknesses inherent in the very same characteristics that have promoted Soviet growth.

First, since the Soviet system has chosen to ignore human welfare, it is constantly faced with varying degrees of popular resentments, frustration, and dissatisfaction. Since it is not spontaneously supported, the regime must rely on coercion and terror. In brief, flexibility of decision-making in the upper echelons is bought at the price of inflexibility in the day-to-day administration of individual plants and collective farms.

Second, the Soviet hierarchy then is continually faced with the problem of maintaining this delicate balance between repression and incentive that I mentioned earlier. Too much repression might bring a violent internal revulsion, lower productivity, disrupted production, and, in foreign affairs, may bring more determined resistance to the extension of communist influence.

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Second, both the military and political objectives of the state urge a concentration on heavy industry as a basis for its military capabilities as well as for insuring future economic growth.

Third, this priority objective of heavy industry has brought a prolonged depression of the standard of living and a chronic failure to satisfy popular expectations. As one writer has put it, quote, The morale of the population is not an objective but an unavoidable prerequisite to effective economic production and military preparedness, close quote.

THIRD SLIDE

Finally, as a consequence of these characteristics of the system, there is the essential requirement that the Soviet leaders maintain a delicate balance between coercion, terror, and repression on the one hand, and indoctrination and incentive on the other.

PROBLEMS

Certainly, the tremendous material progress of the Soviet economy over the last three and a half

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~~concern the Soviet rulers. There are other kinds of~~
~~latent or potential weaknesses that will come to the~~
~~surface only under certain kinds of crisis conditions.~~
Any significant activation of these weaknesses could,
of course, change our estimates of Soviet economic
growth.

Before the panel reviews some of the key sectors
of the Soviet economy, I'd like to discuss briefly some
of the major problems associated with the structure
of this economy; and I think we can best begin by
examining some of its principal characteristics.

First, we have here a highly centralized
bureaucratic structure of economic administration.
This applies to both industry and agriculture,
and is an integral part of their centralized
political power. And, as you can see from the
charts, there is an injection of secret police
and Party control at every level of this structure.

FIRST SLIDE
ORGANIZATIONAL STRUCTURE--INDUSTRY

SECOND SLIDE
ORGANIZATIONAL STRUCTURE--AGRICULTURE

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SOVIET ECONOMIC PROBLEMS

NATIONAL WAR COLLEGE

4 DECEMBER 1956

Gentlemen, I'd like to say right at the start that all the members of this panel were a little disturbed by the boobytraps in this kind of one-sided presentation. And I'd like to stress that we are today solely concerned with problems of the Soviet economy and not with its strengths. I think there are a couple of things we can do to put this discussion/better perspective. First, I believe all the members of this panel generally subscribe to the views expressed by [redacted] yesterday, both with respect to the current situation and the possibilities for Soviet economic growth. Therefore, when we describe current or active problems facing the Soviet economy; we are really talking about economic limitations and alternatives that face the Kremlin leadership. We're not talking about weaknesses that will ~~necessarily~~ ^{25X1A} prevent the general order of economic development which [redacted] outlined. There are however problems ~~active difficulties aren't the only problems which~~ ~~in the Soviet Union that are not currently active~~